STATE MARKET COALESCENCE AND DECLINE OF DEVELOPMENTAL STATE IN INDIA

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The Structural Adjustment Programme (SAP), described tendentiously as economic 'reforms' in official Indian parlance and by the neoliberals, has become since 1991 the defining feature and the main agenda of India's economic policy regime. Contrary to the views of some neo-liberals, it was not a systemic change, but a policy regime change. According to its proponents, it originated manifestly as a response to the growing non-sustainability and the resulting unmanageability of India's fiscal and Balance of Payments (BOP) positions and high rates of inflation. The dramatic policy shift of unprecedented dimensions bunching together several measures in quick succession was undertaken as a response to the crisis but went much beyond the needs dictated by the triple crisis.[1] Infact the change is often attributed to the inherent, inevitable and certain specific Indian limitations of state interventions in the functioning of the market giving rise to a wide divergence between the text-book idealised markets and the really existing and operating markets [2] (which is the focus of our attention along with the really operating democratic polity's policy processes).[3]

Contrary to such overdramatised characterisation, it is proposed to examine in the following the proposition that the post-1991 policy regime was neither a suddenly-sprung total break from the existing policy regimes nor a surprise. Nor it was a mix of hitherto not-used complete and consistent set of policy instruments nor was directed towards a new set of policy goals.[4] They were more an extension and formalisation (though still incomplete from the perspective of the market enthusiasts)[5] removing the dichotomy between the posture and practice which emerged as a result of a continuous series of episodes of incremental changes and compromises away from highly complex and detailed (but not necessarily consistent and effective) interventions and expanding state capitalism, and towards, wittingly and unwittingly, increasingly unrestrained interplay of market forces. Partly this was inherent in the 'mixed' economy model.

In retrospect, it appears that in many ways the pressures and preparations for the 1991 shift in the policy regime were in the making from the early stages of dirigisme. Gradually, various elements of marketisation-liberalisation and increasing accommodation to the interests of the Indian corporate sector and foreign capital were introduced from time to time. The anti-statist, powerful and well-organised forces both formally and informally, illegally and stealthily, in incremental instalments steered the economy and public policies away from the stated statist (sold to the people as `socialistic') policies.[6] These anti-statist, pro-market powerful forces took full advantage of state support to grow, diversify and assume a decisive voice, but managed to escape the rigours of control and regulation by adopting a multipronged strategy in which the pride of place belonged to a symbiotic relationship between political, administrative and business elites. [7] Even the public sector was pressed, whether by design or by default, in the service of private monopolies contrary to stated policy goals.[8] (Petras, J. 1977; Kabra, K.N., 1992, 1989, Chaudhari, 1994, 109-110)

Thus what we had was a not a successful but a <u>failed statist/ dirigiste policy regime</u> :[9] it was failure in a double sense. One, making departures-both stated and unstated-from the statist controls, increased reliance was placed on market variables and processes by relaxing restrictions. It was done often at the initiative of the elements of the state, (say, e.g., following the suggestions of some official committees), [10] but also, at times, despite them, in an informal manner. Second, as a natural corollary, the policy objectives were either not realised, or realised in partial and distorted forms and at a disproportionate and inequitably shared cost. (Sarup, A, and Bramhe, S., 1988, Byrd, 1990) It follows that the policy regime prior to 1991 neither could retain its professed statist character of exercising strong social control over the market forces, despite being "heavily implicated in the statist paradigm" (Bagchi, 1995, 72), nor could it achieve its declared socio- economic objectives. An unsuccessful model can hardly hope to generate social forces interested in taking up cudgels in its support. Not surprisingly, the double failure of the statist model spawned social and economic forces and various domestic and international pressures for making a right about turn in the form of the SAP under the `neutral' sounding policy goal of high GDP growth, external competitiveness, technological progress, etc. These were sought to be achieved by implementing the neo-liberal Washington Consensus policy-mix. (Williamson,

1993) It was expected by the liberalisers that, as a result of the supply-side factors-led higher growth rate and `free' play of both international and national capital and market forces, hitherto ineffective trickle-down processes and low-key pull-up programme would become stronger, in part by diverting state funds locked up in loss-making/unprofitable public enterprises (Rao, P.V. Narsimha, 2000). The resulting dent in India's sticky and massive poverty under the SAP dispensation (Bhagwati, J., 1993,1995) was also expected to give the new policy regime a `human face' to improve its acceptability under India's pulsating democratic polity.[11]

It is proposed to examine the hypothesis that despite some real differences. unprecedented market-friendly measures and sharp posturing of a clean break from the past, the two policy regimes, notwithstanding some inevitable differences in some important ways, are basically interlinked in terms of underlying economic philosophy, objectives. choice of instruments, social base. and understanding of the economic and development processes.[12] Infact, the SAP is not an entirely unexpected consequence or evolution of the subverted, unsuccessful statist model initiated in the 1950s. Many elements of the former had their beginning under the overall umbrella of dirigisme following its inner contradictions, which did not erupt suddenly in 1990 and evoked response from the market forces and the state throughout. (Patnaik.P. and Chandrasekhar, C.P. 1995) The point is that these contradictions operated throughout statism and did not come to head suddenly in 1990-91 causing the change of course. Incrementally in an ad hoc way, the statist policy, was both prevented from full play and was subverted and modified to suit the assertive and emboldened market forces. Hence the two are <u>operationally</u> not too dissimilar, marked as they are, at the actual field level, by many similarities (derived from a common growth - centric paradigm shared, if marginally modified objectives and common largely unchanged support base) and, of course, some differences as a result of high level culmination of some long drawn socio-economic and policy processes. What we see, therefore, is a phenomenon of continuity with change, with the latter somewhat more prominent after 1991. More importantly, both the policy regimes seem to have a largely similar political and economic support base. [13] After all, no basic, fargoing changes in the political economy basis, except for a kink in the policy continuum, seem to have occurred. During the subsequent period, of course, some changes like the predominance of identity and communal politics over the

broad, inclusive national-social issues and fiscal imbecility of the state, adoption of new methods of hidden,. illegal sharing of the surpluses generated in the economy took place. (Jenkins, R., 1999 and Mooij, J. 2000) What has appeared as criticism of and corrective to the Washington Consensus by way of a plea for controlled labour and capital markets and non-minimalist state (Stiglitz, 1998, Bhagwati, 1998) was in a way practised by the statist policy regime geared essentially towards catching-up, taken to be reflected in the GDP growth rate, the size of the secondary sector, import-substitution and enhanced welfare measures, as the main indicators. It is such factors which make the Indian state (not so successful) a candidate for claiming the status of a developmental state.[14] Hence, contrasting the pre-1991 operationalised dirigiste policy regime, with all its aberrations and compromises, vis-à-vis the post-1991 policy regime of liberalisation, globalisation, privatisation (LGP) and its outcomes does not seem likely to show any great operational divergence (see Table I). True, the latter period also has its complement of vicissitudes and is yet to complete its agenda, notwithstanding many house top declarations of market-friendly thrust and even irreversibility with greater and freer opening up than seen so far. Notwithstanding contrary claims, the former does not seem to be qualitatively much different from the latter and the two are in many ways essentially similar and have umbilical links.

This analysis is consistent with the state-centric, society-centric and techno-economic explanations of the policy process in India since 1950. Only those who take the two policy regimes at their face value and ignore so many instances of relaxation of controls, even their abolition in quite a few cases, which became particularly swift and far-going right from the 1960s, assumed greater regularity and speed first after mid-1970 and then in a bigger way during the 1980s are likely to reach a different conclusion. These links are rooted, we intend to show, in the uncorrected, elemental institutional structure of the market mechanism and GDP growth - centric industrialisation under the aegis of a state soft to the market forces. That is to say, the controls and regulations were expected to bring about some ex-post changes in the market institutions, their control over resources, their mode of functioning, decision-making processes etc. but the basic, primary decisions were private decisions under market framework and all its institutions. (World Bank, 1996) It is difficult to come across any attempt to bring about notable prior or concurrent correction, re-arrangement and restructuring of the market institutions and the associated distribution of

power in order to ensure the effectiveness of the controls and regulations. Even at a theoretical level it was not considered necessary to attempt any such thing. It seemed implicit that the reasonably autonomous state power and effective policy and intervention capacity would ensure adequate compliance with controls and regulations. Any significant resistance, manipulation and countervailing moves from the market operators was not anticipated and responded to in the policy design. The whole controls policy seems to have been based on some idealised, abstract market mechanism model, rather than on really-existing markets (whose mode of functioning was hardly woven into the policy design.) For that matter, the technocratic, economic advice too seems to have steered clear of the really-operating democratic polity: it seems the formal structures were taken at their face value. This combination of a given market structure and a soft, unreformed state along with the rewritten relationship with the North (now assumed to be symmetrical and symbiotic but, in effect, a continuation of the past hegemonic domination in a modified and camouflaged style) can be taken as a sure recipe for the major declared goals of development falling by the way side.

Thus the post-independence version of Indian statism failed to click for a variety of reasons, like for instance, its excessive eclectic flexibility, giving it a touch of superficiality, more as a brand name rather than as solid operational reality. Clearly, it failed to factor in the power and manoeuverability of the really-operating market forces and showed scant consideration to the need for the creation of conditions for effective interventions. Making the market operate against its basic elemental grain is no simple task and requires all the ingenuity, alertness, creativity and ruthlessness that the system may command. The actual experience showed, as we discuss below, that for want of satisfying such pre-conditions, nominal formal statism stood discredited, defeated and unable to find its way ahead. In fact, the governmental functionaries themselves have become active expectants of the operation state retreat! It is this conjuncture which paved the way for an unbridled marketisation of the policy regime since 1991. Quite a historically and unanalytically, it seems to have been based on the belief that if one model does not quite work, its replacement by a theoretically polar opposite may.

Rarely do various accounts of government or intervention failures take cognisance of the motivation, modus operandi, resource deployment and power of the market forces to

assert themselves in the face of various statist schemes of controls and direction considered inimical and unacceptable either for the group or class as a whole, or at least at the individual micro level. By making the state accept and one-sidedly canonise the reality of its own failures, as universal and inevitable, inherent tendencies, the combination of indigenous and external market forces by the beginning of 1990s seem to have managed to have had their way and begun shedding the dead weight of many archaic controls, even though some do persist. (Bhagwati and Srinivasan, 1993) Hence it was held that it is better to give up the pretences and fall in line and recognise that the attempted statist, controlled/governed market model with regulated and limited but basically asymmetrical integration with the major large economies of the world has not worked, is non-sustainable and hence has been replaced with neo-liberal 'reforms'. This type of stark contrasts between pure statist and pure market models, which refuses to acknowledge the presence of a policy continuum is a legacy of the binary modes of thinking.[15] It ignores the real, operational content of various operating economic systems and policy regimes which have many elements of continuity as well as some differences of detail, emphases and public posture rather than consisting of totally different, sharply opposed elements. After all, despite a decade of the SAP, it faces a large, unfinished and difficult agenda to fully satisfy the neo-liberal ideologues. [16] Thus, by arguing the failures of statism which became apparent by mid-1960s we intend to highlight its essentially market-driven, distorted and dysfunctional character, both openly and covertly, as a result of the interplay of many complex forces.

The gradual clipping away of various elements of `statism' and their enhanced market-orientation is not attributable simply to its difficulties, contradictions and emerging unhelpful economic situation, or to rarely specified and enforced "performance conditions." Nor can they be related in a tangible way to consultation with the parties involved, as such formal consultations were rare, limited and mostly ritualistic. A great deal of explicit politics, lobbying, mobilisation, influence peddling and various forms of corruption also played their role in weakening interventionist policies and practices. In the introduction we discuss the basic propositions which constrained and distorted the dirigiste model with an active role of the market forces to make state-led growth carry out essentially their sectarian agenda. The next part discusses at the overall macro-level the processes and dynamics of state's activist and regulatory role in close collaboration with and effectively to follow in large measure the

policy courses dictated by the market forces, bringing about a sharp departure of the analytical, political, administrative and economic factors which by means of their interaction prevented the emergence of a develomental state in India are examined. How the state-market bipolarity becomes infructuous in practice has been indicated. Then in the concluding part, a characterisation of the failed, nominal, really existing statism working as a handmaiden of the entrenched market processes and forces has been attempted and an argument has been developed to move beyond the assumption of a compulsory and ubiquitous mutual opposition and bipolarity of the state and the market. After all, in real life situations, the two often work together and complement/strengthen each other.

II

India did not embark on a statist, growth-centric interventionist model with planned, full-blown, well-chiseled, ex-ante determined policy interventions introduced at one go nor has such a model emerged to this day. The whole system evolved overtime in an ad hoc, unplanned manner over time and is still in a flux (Tarlok Singh, 1979; Patel, I.G., 2002, Byrd, 1990; Kabra, 1997). India decided to adopt national economic planning. It was essentially medium –term public investment planning along with the preparation of a mutually consistent, macro economic forecasting framework which could possibly be a factor guiding large private investment decisions. The short run economic management, including implementation of the annual plan sliced for a given year from the medium-term Five-Year Plan did not form a part of the functions of the Planning Commission. (Singh, Tarlok, 1979, Patel, I.G., 2002 Byrd, W.A1990, 716- 717) The Finance Ministry, the Reserve Bank of India, various other economic ministries, PSUs and the States' governments and, at times, even local bodies were entrusted with the responsibility of control, regulatory and promotional policies though they were formulated generally at the apex Union level. The planners did discuss in general terms the controls and policies, but specifics were worked out and implemented by various multi-level agencies as and when they saw a need. No unified agency was given the responsibility of co-ordinating various policies.[17]

Little wonder, no overarching policy and regulatory framework could be generated and the Indian Plans were formulated without a policy counterpart (Gadgil, 1967,259) which was essential in view of the predominantly private enterprise (both organised and informal) character of the Indian economy and her federal , three-tier government, each with its

designated spheres of powers as though the central government was the dominant agency. A variety of specific policies bearing on both the public and private components of India's 'mixed' economy, in order to deal with market failures and developmental challenges, remained largely unilateral (despite the explicit provision for consultation with the organised industries made in the Industrial Development and Regulation (IRD) Act, 1951, and the setting up of Plan Working Groups with a sprinkling of Industry representatives), (Marathe, S. 1986). Thus, what emerged were ad hoc, uncoordinated, basically bureaucratic policies and controls (in the sense of rather thin basis in business information, motivation and practices and more on top-down, detailed rules and regulations assuming violation of rules to be the main tendency) which lacked a systematic monitoring mechanism. As we see below, these policies neither had the teeth to make the controlled spheres adhere to the specified course, nor had the moral standing, arising in part from joint determination of planned national tasks. It seems, these are the kind of factors which prevented the project 'development state' from really taking off in India (Amsden, A. 1992)

A brief overview of the actual course traversed by the policies of control, regulation and direction(Indian dirigisme) is likely to show how the very design, modus operandi and organisational structure of the controls left large space for the interested market entities to bend the processes according to their own perception of self-interest. (Gadgil D.R., 1967, Mozoomdar, 1999, Frankel,F. 1978, Rudolph and Rudolph, 1987; Sridharan, 1999, Baru, S. 1995, Mohan, R.. and Agarwal, V. 1990) This gave rise to informal, hidden business-government links, with an attempt to take the actual course of growth away from the stated social goals; whatever has been achieved is primarily in the direction of market-friendly outcomes like GDP growth rate, industrial and agricultural growth, diversification of industrial structure towards import-substitution (IS), expansion of infrastructure and somewhat improved social indices, in order to provide the 'human capital' back-up for the economic expansion and for providing a modicum of broad legitimacy from the vocal intermediate strata.

Both long-term promotional and short-term corrective controls have inevitably been overlapping in design, choice of variables, sectors and regions, purposes, process of implementation, effects, etc. Still it is possible to place them under some broad, somewhat overlapping heads, (as shown below):

I. Controlling investment and resource allocation: like industrial licensing, locational restrictions and incentives, investment allowance, rebate, actual user import licences, tax concessions, priority allocation of inputs, reservation of spheres of production, restriction on the size and growth large firms, control over foreign capital inflow and operation after entry, controlled interaction between Indian and foreign capital, exchange control, encouraging savings, and private investment in designated spheres and regions by a mix of positive measures, etc.

II. Capacity-use : product-mix, input availability, level of capacity use, price and distribution controls, inventory control, etc.

III. A whole range of controls over agriculture and food production: land use pattern, land-ceiling and redistribution, tenancy laws, pricing, distribution and stockholding controls, zonal system, input-supplies, infrastructure and extension support; public account imports of food, etc.

IV. Corporate Sector controls : capital issue, corporate governance, inter corporate relations, monopoly control, control over foreign companies, their interface with Indian counterparts, etc.

V. External Sector Controls: Foreign Exchange, Imports and Export Controls, quantitative restrictions, both direct, physical and indirect controls, including fiscal imposts, concessions, rebates, granting of sovereign guarantee, export promotion incentives, exchange rate changes, foreign exchange allocation, etc.

VI. Price, Distribution, Consumption-pattern control over specific commodities: both final consumption goods, capital goods, intermediate goods and merit and demerit goods/services (prohibition) etc.,

VII. Social Welfare Related Controls: labour laws, social security schemes, relief employment programmes (also known as poverty alleviation measures), control over working conditions, safety , etc. reservation of jobs, policies for regional and urban/rural balance, gender justice, micro credits, affirmative, positive social discrimination, etc.

VIII. Miscellaneous controls like land-use control, rent control, immigration-emigration control gold control, drug control, urban land ceiling, emergency period controls, under Defence of India Rules, etc.

These instruments of control, regulation and direction used in India approximate collectively to a specific variant of state-regulated economy and indicative planning. Many analysts debunked the characterisation of the Indian economy as a command economy, though the mixed economy characterisation has been more popular but lacks focus and specificity. Many have highlighted the presence of elements of indicative planning. (Balsa, 1990, Brada and Estrin, 1990, Byrd, 1990, Mohan and Agarwal, 1990). I.G. Patel dates the virtual demise of planning from the Third Plan period, following the bitter experience of the Second Plan. (2002),

In this connection a conclusion arrived at by a World Bank economist analysing Indian planning may well be quoted, "In sum, Indian development planning can be viewed as a variant of indicative planning, despite the apparatus of direct controls that has backed it up. It differs from planning in traditional centrally planned economy in that detailed direction to agents on production and investment activities for the most part are eschewed and because there is a large private industrial sector "[18] (Byrd W.A., 1990, 717-718). According to him, the marketisation measures of the 1980s strengthened the indicative nature of Indian planning, (Ibid, 734) It is clear that what prevailed in India was a loosely and weakly regulated market mechanism, but with some macro economy medium-term, overall, financial, public investment planning, without of course, compromising the essential capitalist character of the economy (World Bank, 1996) which failed to recognise the weight and impact of the unorganised and black sectors. (Kabra, Kamal Nayan, 2002)

A brief examination of the course of the controls would help clarify their infructuous character, showing that they operated mainly to the extent they were market-consistent (i.e., either initiated at the behest of or acceptable to the market entities). The analysis of the processes of controls presented by D.R. Gadgil in 1967 seems to have remained valid for the entire 'statist' period. He wrote: "to an amazing extent, the formulation and operation of the regulations and controls are unconnected with each other. Each is framed with a limited, specific objective and operated as such." After giving some illustrations from price control over various commodities, Gadgil spoke of "the total absence of a policy frame" and maintained that the Indian planners deliberately avoided construction of a such a frame. Consequently "in the aggregate, the economy operates as almost a laissez faire economy, in part modified by the operation of particular controls." (emphasis added) He specifically

referred to the failure of rural industrialisation policy, fiscal policy, social equity policy, agricultural production pattern policy, owing to "black market money", failure of credit policy , etc. The only areas of success he noted were areas in which large public expenditure was undertaken. (Gadgil, D.R. 1967, 253-55)

A brief, broad brush sketch of the history of controls in the framework of fairly soft indicative planning may further bring out features like absence of any punitive, coercive, disciplinary measures or a measure of discipline or reciprocal responsiveness of the Korean variety (Amsden, A., 1998) except some mild, easy-to-avoid disincentives and/or denial of formal sanction but virtual, informal acceptance. Covering the period 1950-1979, the Dagli Committee on Controls and Subsidies (Chapter III) divides the history of controls into the following periods and sub-periods:-

(1) 1951-1966:upto devaluation of the Rupee. With the following sub-periods

(1a) Mid-1950 to Mid-1957 covering an initial period of inflationary pressure and relatively easy food situation; beginning of most controls, enactment of laws and announcement of policies;

(1b) Mid-1957 to Mid-1966 featuring a Balance of Payments (BOP) crisis, inflationary pressures, increased defence spending, food imports, both commercial and concessional, and increasing complexity in export/import systems, adjustment of policies to the emerging exigencies in an ad hoc manner, according to the advice and pressure of especially the World Bank and the "aid"- givers, (Patel, I.G., 2002). The use of carrot and stick by the Western donors, especially the USA for making concessions to global market forces (documented by the insiders so freely) became after the Second Plan a regular tug-of-war between Indian policy makers and the West. The report of the Industrial Licensing Policy Inquiry Committee documented the failures and distortions caused by this instrument.

(2) Mid-1966 to Mid-1978 with four sub-periods:-

(2a) Between devaluation and take-over of 14 major banks in mid-1969:-relaxation of many controls on industry in the wake of devaluation-led relaxation of exchange situation, along with intensification of controls on the food economy, necessitated by regionally, crop-wise and class-wise concentrated increase in production under the green revolution technology package relying on market incentives to rich farmers.

(2b) Mid-1969 to oil-price shock of 1973, retightening of controls over industry, bank nationalisation, intensification of import-substitution, but green-revolution (marketisation, industrialisation and intensification of big farmer domination of agriculture) led relaxation of food controls, with an immature take-over of wholesale trade in wheat as an ill-planned, short-lived mis-adventure.

(2c) Between end-1973 to end 1975 with tightening of foreign exchange regulations, some relaxation of controls over industry but a spate of relief-rehabilitation, pinjarapol nationalisations, for intended protection of existing employment; organisational-institutional changes in foreign trade with monopoly canalised trade in certain commodities by STC, etc. re-tightening of food controls in the face of rising prices.

(2d) Early 1976 to 1977 emergency –bred relaxation of controls over industry and food economy with emergence of temporary, fleeting foreign exchange and food stock accumulation.

(3) The period subsequent to the Dagli Committee Report may be divided into the following: Post-1977 phase of liberalisation-marketisation (prelude to 1991 purportedly full-blast, broad sweep liberalisation)

(3a) Janta-period relaxation of controls in industry /trade/agriculture, etc and some feeble still-born attempt to correct the overemphasis on GDP growth by assigning high value to the employment objective directly

(3b) Return of the Congress: Balance of payments difficulties caused by the second oil shock and growing `aid' addiction,. attempt to redefine industrial and trade policies by granting greater freedom to market forces.

(3c) 1980 and first IMF loan conditionalities based liberalisation, its mid-stream loss of momentum and direction (3d) Mid-1980s second round of liberalisation after initial bold steps, this phase too got mired in loss of direction and momentum(Paranjape, 1985,1988 Ghosh, J. 1998, Sridharan, 1999)

(3d) From 1991 continuing liberalisation, which in a series of measures, taken, to begin with, from the conditionalities attached to the IMF bail out package was used as an opportunity to unleash a whole series of liberalisation, privatisation, gloabalisation measures far in excess of what might have been considered essential for escaping the cul-de-sac facing India on the fiscal and BOP fronts.[19] (see two charts I and II to portray the coverage of these `reforms'.)

The initial dose of it contained suggestions, including a virtual time-table for a series of such measures. These so-called `economic reforms' marked that proverbial last straw which was intended to be the final nail in of the coffin of ineffective, unsuccessful, burdensome statism compromised by creeping marketisation in fits and starts for nearly four decades. The build up towards an increasing role of the market forces and bottoming out of the role of planning for a decade and a half preceding 1991 can be seen as a prelude to the sharp and open espousal of the market (the idealised model) under the SAP. (Alternative Economic Survey, various issues; Sridhar, 1998 Jha; R. 2001)

And yet, even with the `reforms' and the attempt to roll back the state, (Eighth Five Year Plan, 1992) there is practically undiminished presence of the state in the economy, though as a subservient handmaiden to the market forces. The contribution of the state sector to domestic product in 1990-91 was 26.3 percent. After increasing in the initial years, for a number of years it is presently hovering around 25 percent. (CSO, NAS, 2000). Clearly, both politically and economically, rolling back the state is not that easy. The tortuously slow pace of ideologically-dictated cronyist, privatisation, steeped in controversies, too is a similar indication. Full scale convertibility of the rupee has fortunately met its end after the East Asian crisis, leaving only current account convertibility in place, along with freeing of some specific capital account transactions. Nonetheless, the ruling policy ideology and rhetoric saw a right about turn: the idealized market was sought to be placed at the center-stage, which dictated the state's economic agenda to facilitate the strengthening of the market forces. The subterranean market has come out in the open and the pretension of social orientation has gone away. The pretence of mass welfare has been substituted by the soft talk of the `human face' of the `reforms' in order to sell the `reforms' to the people at large.[20]

Having described the major areas/forms of controls and the historical phases of their evolution, it must be pointed out that provision of many open and hidden subsidies, including cross-subsidies mainly to the market operators in industry, trade, big-farmers agriculture, etc. and to some sections of the consumers of some commodities, is another closely connected feature of the statist policy regime (Shrivastava and others, 1997). It is often lost-sight of by those who tend to emphasise the restraining/distorting/ market-hostile, incentive-weakening thrust and impact of the `statist' policies. The market augmenting role of the state was a no less important part of the statist policy regime which visualised strengthening of the market

forces and processes. Among many facets of the market augmenting role (the most important being rising public investment) one may underline direct and indirect financial transfers in many forms, including subsidies, favouring certain sections of the market economy and making direct financial transfers by open subsidies and indirectly by covert subsidies. This is an often overlooked aspect of the controls regime. This set of state policies directly and powerfully facilitated and reinforced market outcomes.

It was observed that not only the economy but the 'statist' policy regime itself ran frequently into difficulties, crises and contradictions of various orders.[21] As a result, the actual course of controls and regulations saw a reversal and premature stoppage in the tracks as well as constant modifications in response to changing pressures, exigencies and inability to either withstand pressures or take bold decisions to enforce controls both in letter and spirit. Indian dirigisme had no fixed menu and had a big place for *a la cate* service. There have been several exogenous factors (like two oil shocks, geo- political changes), macro-economic changes (like in BOP position, inflation, fiscal imbalance amounting to a fiscal crisis as the state became unable to maintain the tempo of public investment, investment and savings trends, inability to raise direct tax revenue in the face of massive tax evasion and its extended logic in the form of the black economy, etc.), sectoral changes (fluctuations in farm output, industrial pick up or slow-down) feedback from policy experience, administrative learning experience and bureaucratic power play as also the hidden and open hand of both internal and external lobbying, which led to frequent changes, reversals, tightening and/ or relaxation and procedural changes in the design, details, content and thrust of the policies. (Dagli Committee 1979, Paranjape, 1985, Baru. S. 1995' Sridharan, 1999, Byres, T.J. 1993, Sundrum, R.M. 1987). State capacity, in one word, to become a dirigiste development state was too weak to carry out the massive, onerous responsibilities inherent in the challenge of development. How an inappropriate, non-feasible agenda of imitative catching-up industrialisation contributed to the stillborn developmental state is another story.

This kind of policy volatility, going much beyond the changes in the underlying situation and buffeted by the pulls and pressures experienced by India's democratic polity and over-accommodating 'soft' administration (Myrdal, 1970) tended to bring about unintended results sharply at variance from the declared ones. The accommodation shown

to diverse interests of organised capital and marginally to the peripherals in none-too-stable a coalition of interests made the perceptions about the policy-mix initially devoid of a clear thrust. Overtime, its character became a mixed bag of diverse, practically eclectic, elements. Retrospectively, one may identify the major big gainers, but that seems to have happened more through the initial conditions reinforced by informal, unannounced, incremental processes, of course, with the help of the space left for such manoeuvres in the policy design itself. In any actual model of muddling through plan and policy implementation, (Kabra ,Kamal Nayan,1997) it is not surprising that the real life patterns of social dominance get reproduced, even reinforced, owing to the inability of the interventions to subdue the elemental, market forces, improve equity in the distribution or, generate real, countervailing forces and create preconditions for an internally-rooted pattern and pace of development. In a way, one can say that the policy processes both through formal and informal procedures moved away from common public or civil society concerns and produced results similar to market outcomes, but with the real and psychic additional costs of policy interventions and the transactions costs and transfers via competitive rent-seeking and rent-giving behaviour (in fact, and more appropriately <u>marketisation of policy processes</u> by active cutting-edge level part played by the entities supposed to be controlled and disciplined). Such rent-giving behaviour, often an irksome cost, generally earned extra, supernormal profits for those who succeed in competitive subversion of state controls in market-determined directions. The unproductive character of these activities is, it has to be recognised, from a social point of view and not from a micro perspective ! The 'rational fools' would not otherwise undertake such activities.

Those who recognised the competitive phenomenon of rent of authority seem to take it not only as unproductive (despite its micro 'rationale') but stop short of working out its implications for the system: its working and effects. Given the market and government `imperfections' and shortcomings (really existing features), their emergence is essentially spontaneous, elemental and noncontrived. They have all the features of real markets. They facilitate interactions between economic and political markets. They follow an inherent expansionary and mutually accomodative logic. More important, their prevalence and strength snowballs and they evolve an accumulation-operational circuit of their own by way of interaction between compound black incomes (fruits of rent-giving) and political-

administrative black incomes using their past accumulated stocks of ill-gotten wealth[22] (Kabra, Kamal Nayan, 1982). Thus, there emerges a virtual black economy criss-crossing the open, legal economy at numerous points, a process facilitated by discretionary, opaque, detailed controls. The significance of these phenomena and the processes arising from them is that, they tend to move the economy away from the controls and regulations and make them marketised in an elemental, imperfectly competitive manner.

At this stage, it may be clarfied that the intervention of rent-related transactions in the functioning of the economy as a feature of its marketisation, may be replacement of one kind of aberration or departure from the perfectly competitive model, but a real, actually operating market phenomena nonetheless.[23] This informal assertion of the forces from the demand and supply sides based on the resource endowment of the parties involved and their own motivations and behaviour does encounter its limits and the entire economy does not get permeated by the the black transactions. The state is weak and becomes further weakened especially in controlling micro decisions. But through its own and public sector actions and partial success in regulations and controls, especially because the market sector often falls back on the state for support, survival and growth, the state succeeds to a limited extent in carrying out some of its macro-social projects and objectives albeit at a high and inequitably distributed cost, i.e., costs both in terms of efficiency and equity. For instance, despite all the limitations of the statist model, it would be incorrect to deny, that the statist, indicative planning model did not record some important , though partial accomplishments which changed the character of India's political economy, development prospects and relative global position. One may mention (non-exhaustively) higher rates of savings, investment and growth, setting up of Mahalanobis industries and diversification, strengthening of India's industrial capacities involving many import-substituting industries, far from adequate but unprecedented expansion of a variety of social services, green revolution, prevention of mass starvation deaths despite some severe droughts, expanded and strengthened small scale industries, etc. Without underestimating such factors one has to recognise the involvement of the market processes and influences (whether in tune with or despite the plans) in these changes.

Let us come to some specifics in order to understand the dynamic interplay of controls and the market. While going in for GDP growth as the prime goal consistent with the

Truman doctrine, (Sachs, 1992) the state continued to mouth its concerns for equity on a formal plane.(First Five Year Plan, 1952; Mishra ,G. 1988) No wonder, it translated into half-hearted measures both from growth and equity angles. As a result, the edge of growth-centric policies was blunted, without sharpening that for equity.(Gadgil, 1967) Similarly, the national plan's commitment to catching-up industrialisation, was sought to be attained by rejecting the classic British path of growth of consumer goods industries preceding that of capital goods through an unbalanced growth trajectory. Instead, India opted for the Soviet-Feldman-Mahalanobis path of reversing the above mentioned sequence along with an employment-oriented secondary role for small and cottage industries. This led to the assignment of a large role to public sector . However, macro, sectoral and market control policies failed to back up this role by a requisite mobilisation of financial savings, widening of the home market, organising efficient and honest functioning of both the public sector enterprises and the large corporate entities in which large amounts of public savings were deployed, commensurate with the capacity build up needed for sustaining the Mahalanobis industries. While a number of supply-side supportive policies for the small and cottage industries were initiated without realising the basic, qualitatively different nature of the two and the question of demand for their products received scant attention. Moreover, the question of operational content of the management of the PSUs, consistent with their large social and onerous economic and financial responsibilities continues to be elusive even upto the present when their privatisation in a few hands has become the official policy agenda.

This is so despite the fact that the role of the public sector was not only in line with that envisaged by the big private capital of India (Thakurdas, 1944) but scarcely went beyond the industrial policy enunciated by the British Colonial administration in 1945. (Marathe, 1986) Even the private sector was given a big role, largely in tune with its own expectations. Many promotional policies, including protection were introduced for private industry. But many legal enactment and executive orders, industrial, import and capital market controls and tax laws were based on suspicion about the fair play proclivities and entrepreneurial-innovative capabilities of the captains of industry, over and above doubts about their capability to raise the requisite finance. This led to the creation of many public financial institutions for supplying industrial finance, which rarely were able to make use of their leverage for furthering public goals. Thus, it seems that the regulatory controls could not

really become effective. As the Planning Commission recognised, "one of the weakest areas in Indian Planning is the regulation and direction of the private sector.... Non - priority diversions have to be privatisation and priority items have to be adequately serviced and speeded up in both formulation and execution". (Fourth Five Year Plan: A Draft Outline, 1969, 33)

Not much fair play and above board behaviour was expected from the trading sector especially that dealing with essential commodities. Hence, to deal with such market imperfections and manipulations a series of price and distribution controls were clamped on domestic trade like the Essential Commodities Act and other orders concerning specific commodities, which, in essence, were an extension of war –time controls: Howsoever socially necessary, they tended to limit profit opportunities for trade and weakened their incentives. Hence many devices were adopted by the traders to bypass the controls, of course, with the connivance of, by and large, favourably inclined administration, especially at the level of the States.

A similar attitude towards company formation and governance, capital market and private financial intermediation (like social control over banking) can be witnessed in the conception, design and implementation of many laws. How the informal kerb dealings in the financial sector including the fungibility of money, including capital flight and hawala impacted the financial sector is yet to be adequately explored. This is an important area which weakened monetary and credit policy, capital market and exchange controls, the role of public financial institution, cooperative credit, bank nationalisation, etc and gave the market forces a good deal of clout travelling up to the real and control spheres. True the Chakravarty Committee to review the working of the monetary system (RBI,1985) did succeed in introducing some measure of financial liberalisation. However, neither could these changes end what is called financial repression; nor the kerb financial flows. It is a different matter that the so-called financially repressed economies like South Korea and Taiwan are counted among successful, neoconservative developmental states. The Report of the Committee on Controls and Subsidies (1979), quoting official studies, gives a graphic and detailed account of the ineffective, contradictions- ridden, non-implementable and dysfunctional controls. They were generally without focus, addressed multiple objectives without clear-cut enunciation of their inter se priority. (Fourth Five Year Plan, 1969, 298-302).

No mechanism was devised to ensure that the methods of applying them remained honest, above board, transparent and accountable. These problems of the regulatory framework and the downgrading of the promotional role led to their ineffectiveness and counter-productive results, largely in keeping with the interplay of the existing real market forces.

Such a character of the controls regime could have been, in part, owing to basic ideological haziness and hesitation. It reflected, in essence, an attempt to ride many boats simultaneously, i.e. trying to appease or keep in good humor diverse social and economic forces which were feared for their capacity for political backlash despite `democratic deficit' visible right from the 1950s. The diversity of goals can be taken to reflect the urge to satisfy different constituencies, irrespective of whether there exists mutual consistency among these interests and their overall consistency with the stated goals of development plans or, the economic feasibility of such a course, especially in view of the state's own economic, political and administrative capabilities. To an extent, the Congress party, the heir to the legacy of the all-in-all national consensus of the freedom struggle, was unlikely to take a clear-cut, sharp and operationally effective stance in favour of or against any well-defined groups. Obviously, the inability to do so works in favour of the existing power structure which moves on to consolidate itself. The sorry story of the fiasco of land reforms shows that even the feudal (in the specific Indian sense) elements who were, by and large, collaborators of imperialism, could not be targeted in a sharp, clear and effective fashion. (Ladjinski, 1977). A similar fate met industrial licensing, (ILPIC, 1969 GOI, Ministry of Finance, 1986, Fourth Five Year Plan1972) [24]. Needless to say, land reforms and industrial licensing were the very basis of the `statist' model for agriculture (substantially marketised in mid-1960s) and industry (which, as we see below, was given small doses of liberalisation-marketisation continuously from early 1970s) respectively for the domestic sectors. Both fell far short of attaining their objectives and produced results opposite of the stated social objectives.

The story of proto-liberalisation (i.e., liberalisation before liberalisation, playing a critical role in making the latter, post-1991 liberalisation both possible and acceptable) began in the 1970s. As Paranjape has summed up after a careful and detailed examination of public policy for industrial growth, "The process of liberalisation really began in 1973 with the revised industrial licensing policy....this process took the form of increasing the area of `delicensing', announcing exemptions from the operation of the convertibility clause, moving

away from the regime of price controls, either to removal of such controls, or imposition of dual price, with more concessions by way of a smaller proportion of production being subjected to controlled prices, and a continuing regulation of actual capacity much higher than originally licensed mainly on the ground that the unit had been able to attain levels of production much higher than licensed. It is worth noting that there was no break in the process of liberalisation due to the changes in government that occurred in 1977 and 1980, except that, since 1980 it has been much more open and at an accelerated speed. Secondly, the movement towards liberalisation has attained a real break-neck speed in the months since November 1984,. Changes and announcements followed one another, quick and fast." (Paranjape, H.K. 1985, 1516 emphasis added).

And what we have witnessed is that the process continued much beyond the 1980s. It is this very liberalisation, started in the early 1970s which with liberal contribution from the 1980s policies, led to the 1990 crisis and, in the true style of the belief that `like cures like', has led to a further wave of liberalisation since 1991. In the domestic economy of India market mechanism retained the primacy (though no exclusivity, as a unlikely in any real historical situation) despite the inroads attempted by `statism'. This then becomes a story of attempted but mostly unsuccessful dirigisme. The actually existing markets have their complement of distortions and failures, further accentuated by unsuccessful, partisan, crony interventionism. It was half-hearted statism which lacked self-assurance, effectiveness and hence became largely a failure. Its irony was that, in order to correct failures, instead of tightening the rules and their implementation and disciplining the market operators, it was followed by a fresh round of concessions, relaxations and became increasingly marketised with only some surviving vestiges basically for the forms' sake. This was a process which was helped a great deal by the immunity acquired by the business-government informal symbiosis through the mediation of the burgeoning black economy, (which was blessed, buttressed and forcefully imposed through deft economic diplomacy by the USA, Aid India Consortium and the Brettonwoods twins). It was an inevitable result of continuous huge accumulation of rent of authority and simple and compound black incomes, along with the inbuilt contradictions and limitations of the Indian brand of statism. [25]

III

An overview of domestic and external sector controls and regulatory policies at a general level without going into specific policies and controls in the preceding pages hopes to have shown that such diffused, often contradictory, halting, loopholes-ridden, ill-focused controls without a clear hierarchy of goals, and lacking transparent and accountable policy administration had limited prospects of effectively delivering the good. Along with relying on society, economy and polity-centric factors in order to explain the partial but basic fiasco of statism, it may be seen with the advantage of hindsight that through their own design, misdirected dynamics and lack of self-assurance, the chances of successful working of the Indian controls were remote. The very design, evolution and execution of the controls, as seen above, created enormous discretionary space for both the political and administrative power centres to act in tandem with the objects of controls (i.e. the business groups-the major component of the market) to subserve the latter's market-driven business objectives.[26] This discretionary space was (mis) utilised to the hilt by the trinity of business persons, bureaucracy and politicians, operating directly as well as through the tribe of power brokers and party storm troopers. This was the dynamics of interaction between really-existing markets and really-operative democratic polity. We do not want to go into the hows and whys of the Indian politics, which nonetheless played a crucial role in distorting and defeating the controls regime. Many accounts of the politics of policy processes have been provided (Jenkins, 1999, Corbridge S. and Harriss J, 2001, Frankel, 1976; Rudolph and Rudolph, 1987; Chenoy, K., 1984, Migdal, 1988). We would simply allude to the fast disappearance of grassroots real political education, mobilisation, constructive work among the poor and deprived by the political parties for building up their citizenship capabilities and for developing and deepening organic socio-emotional linkages between the political elements and the masses. Rather like the profit-hungry businesses looking at the citizens as consumers available for milking, the competing political parties tended to treat their constituents, the citizens as simply voters only, to be wooed, beguiled, cajoled or coerced for their power games.

It would certainly be naive and deterministic reductionism to posit that the conflicting pulls and pressures in the working of an interventionist regime with developmental ambitions were irreconcilable or that an effective, enforceable scheme of controls was simply not possible or that the dominant social forces could not but produce such outcomes. After all, some controls and interventions, planned or ad hoc, over some periods of time, during normal times, and more so during emergency periods, have worked in India e.g. the wartime controls as also efforts to reduce imports during 1957-1960 owing to acute foreign exchange shortage and also controls on some commodities did bear fruit to varying degrees. Indian macro economic management did avoid inflationary spirals of the Latin American variety. A notable success in its limited objective was the mid-1960s switch-over from the equity-oriented agricultural policy to marketisation and industrialisation of agriculture along with globalisation of some of the production conditions of Indian agriculture, mainly input supplies, in order to achieve a very high degree of national level self-sufficiency or macro national food security. The change in the agricultural strategy was credibly successful in its stated, medium term objective. It amounted to replacing the basically socially-oriented ideal of small farm economy with "betting on the strong", with its inevitable counterpart of greater role of the market forces.

The question basically is: was there enough realisation of the issues and complexities involved in effective, no -nonsense state intervention, especially in view of :

(a) the clout of the moneyed, resourceful and the well-connected, and their predatory tendencies;

(b) organised group, class and individual efforts to change,weaken and remove the controls, involving intense competition in the domain of policy politics and conflicts It may be noted that in the Indian context there was a multi-interest,multi-goal, multi-stage, multi-agency intense competition for exercising influence over policy-making, leading to an interplay of distorted and imperfect market and highly centralised political forces lacking adequate social orientation;

(c) nature of Indian bureaucracy, its policy capabilities, wooden inflexibility, narrow self-serving character and its major problems connected with principal-agent relationship; [27]

(d) availability of effective liaison agencies and intermediaries ;

(e) complications arising from weak, narrow and imperfections-ridden markets with a high degree of differentiation, especially the big size of the unorganised informal sector on the one hand, and the highly concentrated nature of the corporate, on the other, (Kabra, Kamal Nayan, 2002)

(f) cultural factors bringing in the informal role of primordial ties of different kinds;

(g) international political economy, especially, the stakes and immense, uncritically accepted intellectual clout of the West in Indian development thinking and policy. (Rosen, 1985)

Except for the close impact of the ties with the Soviet Block, general distrust of business and initially large but later dwindling mass-base of the left parties, and possibly the personality of Nehru, there was little social pressure for ensuring enforcement of strict social discipline through a variety of controls, especially in the growth strategy of betting on the strong. Despite some critical voices, there was a vast national political consensus behind what has come to be called the Nehruvian model, combining long-term promotional and short-run regulatory policies, along with medium-term public investment planning more or less throughout his premiership, notwithstanding some weakening after 1962. There is not much evidence of concurrent learning exercise, as a sequel to prior policy analysis, in order to ensure that the quest for effectiveness and flexibility of policies did not become an excuse for ad-hoc, arbitrary buffeting around of various controls and policies under various hidden and open pressures and processes. A mechanism imparting to the policies appropriate, contemporary relevance and context with built - in adjustment devices, procedures and processes was sorely missing. The long-term, anti-statist agenda of the marketeers was sought to be served by the private sector and its upper echelons by waging a constant ideological war for denigrating the state sector. [28] Non-use of the public sector as a general, overall instrument of public policies was compounded by its use for political-administrative corruption and tacit complicity and indifference of the trade unions. This was helped massively by the corporate control over the media ,support from the Western countries' establishments, bureaucratized, politicking PSUs management, economism of the workers and neglect of the macro-social role of the state enterprises. [29]

It is not our purpose here to do a detailed case studies based critique concerning how various controls were instituted during 1950-1990 and how and why they failed to click

and many of them turned out to be counter-productive. There is a fair degree of consensus on this question. Even official studies/reports like Santhanam Committee on Corruption, Industrial Licensing Policy Inquiry Committee (ILPIC), Dagli Committee on Controls and Subsidies, Raj Committee on Control over Steel Prices and Distribution Wanchoo Committee on 'Black Money', Mahalanobis Committee on the Distribution of Income and Wealth, Monopolies Enquiry Commission, various mid-term reviews of the Five Year Plans, etc. provide ex cathedra account of the failure of controls and planning in India. To this may be added a great deal of fundamentalist literature which while lampooning statist controls and regulations, and their failures, located the blame on the very decision to control, regulate and redirect the market rather than leave the markets basically unregulated and 'free', especially in industrial and trade related matters. [30]

The failure began *ab initio* from the very conception and design of controls and extended to their implementation in ways inherently incapable of producing positive, expected results. [35] While it seems possible to put together a reasonably extensive list of studies which bring out the failures of both the regulatory and promotional policies, laws and agencies, it seems very difficult to stumble upon studies, which claim a resounding success. True, many continued to argue in favour of persisting with and even hardening the controls and voiced opposition and concern whenever any departure from the set pattern of controls was put on the anvil.[31] The 'soft' state rhetoric was misinterpreted to make the jungle of administrative fiats increasingly dense without realising that in the darkness created by the thick jungle of minute, detailed, ambitious physical and administrative controls, both the regulators and the regulated evolved their own *modus vivèndi* to find ways of their own choice, volition and interest under-playing the actual extent of limited controls, [37] The reigning ideological-intellectual flavour upto the early 1970s was clearly that of yet more government-whether as regulator, promoter or direct participant. The question of effectively translating the rhetoric and formal arrangements into concrete, ground level reality with positive pay off for the declared objectives could not win a serious presence in the midst of the gung-ho of 'statism' especially because of the gradual deinstitutionalisation of the state and policy processes.[32] Thus, the political, bureaucratic and business classes evolved a grand elitist alliance characterised by a kind of dichotomy between the 'public face' and the 'private face'. (Marathe 1986, 15) which seems to be what is implied by the description of Indian

policy-making as policy-making by stealth. (Jenkins, 1999), with growing meddling by power-brokers. [33]

Not that there was no recognition of the difficulties in running this model. The first Five Year Plan's rightly recognised position that "controls ineffectively and inefficiently administered may do harm than good" (1952, 42-43) . However, it seems to have gone unheeded at the cutting edge level like so many formulations in the plans and numerous policy statements. In fact, the approach towards production, consumption, distribution imports/exports, foreign exchange and BOP, prices, factor rewards, regional development, fiscal, monetary and financial sectors, investments, social security, employment etc. did not always, over a given period of time had a mutually consistent approach in terms of either restraining, regulating or encouraging the market forces, adopting direct, physical controls or indirect, financial steering. Many policies were for augmenting the market, often termed promotional policies, like, for example, fiscal and other incentives and subsidies for specific location, technology, upgradation, import-substitution, export-promotion, savings, employment generation in small and village industries, etc. Some policies like direct state entry into capacity creation for some products by way of public investment may be said to have suppressed the market, without, of course, recognising the unwillingness, incapability or both of the private sector to enter such an uncharted, risky and heavy investment area. Similarly, some policies did discourage private initiative by reducing profitability or diverting low or non-priority industries, e.g. for the MRTP and FERA companies. A number of policies facilitated the market participants in their activities, though an element of leverage for directing private market decisions was also interwoven.

However, in the discussions on `statist' controls and regulations, as mentioned earlier most of the attention seems to have been reserved for policies which restrain, place hurdles and impose disincentives on market decisions. It is also worth noting that most of the controls supply-side controls. Except some fiscal and monetary policy measures and some physical controls over consumption, mainly of either goods in shortage or demerit goods, the demand side policies and controls, have been few and far between, save some inevitable effects on the magnitude and pattern of demand which result from price and distribution controls, (including by their violation) tax-measures, selective credit controls or overall

increase in per capita GDP or the huge incomes accruing to some plan-favoured sections.[34] The question of increasing home-market, especially market-widening could not become a live, operational concern consistent with its role as a major desideratum for attracting private investment. In brief, the controls came to take a variety of forms and interacted with the market forces and processes in a multiplicity of ways. This diversity of the forms and nature of controls is not often appreciated and factored in while analysing their interface with the market forces. The popular presumption propagated by the advocates of the market ideology seems to be to posit some kind of necessary, adversarial relationship between public policies and the market. Obviously, the organisationally distinct character of the two is also taken to mean independence of each other in terms of interests, motivation and behaviour patterns. The assumptions of this kind deny the possibility of practical, operational fusion of the state and the market, or, in other words, the evolution of some informal ties between the two for the pursuit of common, shared objectives .

Such close intertwining has led to "government is business and business is government" type of characterisation of the state i.e. the India Inc. view. As analysts like Robert Wade (1982) have shown in the course of discussing the state, market and development interface, the relationship is very complex and not always adversarial even when the intent is to 'govern' the markets in the interests of development which tends to strengthen the joint hegemony of the state and market elites.[35] The complexity of the market-public controls relationship is as complex as are the institutions of market, state and wider and complex civil society. Any simplistic, one-way, one-dimensional equation between the three is misleading and far from the reality. Changing business behaviour away from the market-dictated, elemental courses and redirecting them into socially preferred channels is the theoretical rationale of a regime of controls and regulations. It has to be firmly and soundly rooted in an intimate understanding of business behaviour and response pattern. If inclusive, non-involutionary development is the social objective, both the state and market forces have to be reformed, controlled and brought under popular democratic discipline, requiring large scale restructuring.

If policy interventions were to succeed they would have rewarded the market entities for decisions consistent with and penalised the decisions counter to those intended by the scheme of controls. A scheme of incentives and disincentives, their objective,

institutionalised determination and implementation and constant, flexible readjustment in tune with the underlying situation indicating implementation gaps are critical to successful statism. This presupposes on the part of policy- makers intimate understanding of business behaviour both in pre- and post-intervention phases, including the degree of malleability of market behaviour and government's capability to ensure compliance. In other words, in the policy-constrained market environment, the policy design has to modify the market decisions according to policy objectives by a combination of carrot and stick approach including, a measure of direct coercion for exacting "certain performance standards from the firms" (Amsden, 1989;146), say, by ordering special tax audits as in S.Korea, or search and seizure operations against recalcitrant, non-performing firms, (Ibid, 147) withdrawal of incentives, offering incentives for incremental performance by providing proactive guidance (like in Japan and China) and ensuring institutionalised responsiveness to changing macro-social needs. Clearly, under watchful, vigilant democratic processes a realistic and reliable access to information on business behaviour and its monitoring with a view to modify policy instruments, sequence, timing, agencies and institutions according to the unfolding situation are essential for policy effectiveness. These conditions cannot be satisfied purely on formal-legal bases without taking into consideration the real politics of dirigisme, including the network of social contacts and cultural setting (brought into play these days under the rubric of social capital') . Similarly, the neo-classical micro economic principles about uniform, robotised competitive, profit-maximizing behaviour of firms can hardly provide meaningful clues for effective regulatory policies. The above considerations point to the role of reciprocal responsiveness, institutionalised, transparent and accountable decision-making and strong grassroot democratic mobilisation for enforcing the popular or people-centric democratic agenda.

The above, somewhat lengthy diversion may help identify elements to explain the specific character, extent and underlying factors of the failure of statism in India. Thus, India could not become a developmental state" which has the authority, power and capacity to work through, in and with a market economy" so as to be able to "manage the market" (Leftwich, 2000;8). Rather, she acquired a market-manipulated or managed interventionism, a failed developmental state, characterised by (what has been spoken of by some

economists) " varying devices of mixtures of corruption, incompetence, cronyism, clientelism and straight-forward kleptocracy" giving rise to "grotesque mal-development" (Idem)

IV

The post-1990 switchover to a market-friendly `reforms' package was supposed to correct the distortion, limitations and inadequacies of the nominal statist model. (Bhagwati, J. and Srinivasan, J.N, 1993) Enough has been written to show that the `reforms' implemented so far (which form the key and substantial part of the `reform' agenda) have not been able to cover themselves with glory.[36] Even its advocates have recognised not so sumptuous outcomes so far. (Bhagwati, J. 1998) At best, India obtained mixed results far short of the claims and expectations of the liberalisers, and highly divergent for different sections of society. Our external economic and financial partners seem to be reasonably happy with what has been done so far though many elements of their agenda too are yet to be taken up. This is not surprising in so far as the Indian variants of actually implemented large scale marketisation and nominal statism are not spectacularly different from each other. This is what may be regarded as the main point emerging from of our exercise so far.

The complex interaction of the market forces and public policies for controlling and directing the former in socially desirable directions produced mixed results. There certainly was some economic growth. It was fairly impressive growth during certain periods, certain spheres of activities and in certain regions. The growth experience, along with its heavy multi-dimensional, unfairly distributed costs, was, by and large, unprecedented. But it was lop-sided, unbalanced, volatile and in many respects inimical to the nationally proclaimed objectives. In certain spheres it was rather slow and was generally unaccompanied by desired social, cultural and political changes. There was a sharp cleavage between the desired and realised results, especially in areas which can enrich and empower the great mass of common citizenry. The task of pursuing development has become increasingly arduous and is facing increasingly harder choices. There has been frequent recognition of these, in the main, unsatisfactory outcomes even at the official level, who have not claimed

more than patchy, partial accomplishments, (GOI, Planning Commission May, 1990; 1 to 9) for which there certainly exists reasonably evidence.

The thrust of our reasoning in the preceding three sections is that these outcomes are relatable to the public policy-constrained operation of distorted but powerful market forces, which rather than be disciplined and directed by the policy interventions, tended to direct the latter according to the logic of their individualistic profit motivated perspective. The market forces competed as much in the market as in the policy and political, administrative spheres. They forged alliances, strengthened their resource base and command over social resources and productive capacities. In this task along with economic, financial and technical processes in the market, they also resorted to the task of bending the political and administrative policy processes to their specific interests and objectives increasingly weakening the formal, statutory institutions. Of course, they had to share these massive gains with the political- administrative machinery. But the public investment, planning, direct and indirect financial, technical, physical, personnel support, protection from external competition and an overall growth euphoria cloaking sectarian goals with nationalist humanitarian gloss could have more than compensated organised private capital for the costs by way of rent of authority collected from them not surprisingly often with zealous and competitive willingness to pay up for the services rendered and value received. It would be rather difficult to understand the economic and social change in India as that dictated and determined by policy processes in which the market forces played their part merely or even mainly as ordained, permitted and facilitated by public policies for stated public purposes. Consciously pursued, development is basically a matter of power play and the powerful played it naturally according to their own rule book. Our reasoning hopes to have shown that the market forces became closely intertwined with the policy processes, often moving into the driver's seat, if not exclusively at least predominantly but generally clandestinely. Both formal and informal mechanisms were forged and utilised by the market forces for these purposes. Any account of the unfolding policy drama in India which took the formal script at its face value and ignored the actual evolving roles played by different actors would be hard put to make sense of the actual course of developments.

For a pretty long time now, the Indian state has been facing a fiscal crisis, which continues to worsen despite so-called stabilisation measures.(Koptis G. 2001, 74) Similarly,

a chronic balance of payments problem has become a regular fixture of our economic scene. Contrary to the aim of achieving the capacity to pay our way in international economic relations by the Third Five Year Plan, external account viability has been wiped off the radar of our socio-economic objectives. It is a fate shared by this aim with another major long-term objective, viz, achieving full employment for our vast human resources which too seems to have been discarded, [37] probably following Milton Friedman's dictum that 6 percent unemployment is the price of the freedom for the market forces to choose!

The sticky fiscal and BOP imbroglio is one major indicator-a symptom- of the way in which, along with steady, uninterrupted inflation, the market forces continue to have a decisive run of the economy. [38] These outcomes are partly owing to nearly continuous growth of money supply at more than two to four times the rate of growth of real output and the concentration of both in the hands of a tiny minority. It happened, thanks in part to the Quixotic desire to attain a public policy controlled and directed growth without even the pretence of a wage, price and incomes policy.[39] Let alone any fair, workable pursuit of social equity, even the livelihood security for the masses remains elusive. As has been shown (Patnaik, U., 2002), even on a conservative estimate the 1990s- the decade which denied development- saw a reduction in annual food availability for a family of four by 100 kilograms, leading to stock piling of some 6.3 crore tonnes of cereals, involving Rs. 2700 per tonne per annum of storage cost which is a major contributor to Rs. 18000 crore treated as food subsidy in government jargon. The stubborn refusal to adopt an integrated and effective wages, prices and incomes policy amounted to granting a cart blanche to the market forces, which mobilised the subterranean economy in addition to fortifying its sectional power. The production and consumption structures spawned by market determined income distribution, which refused to be improved even marginally by tax policy owing to the market-dictated dilution of tax law provisions and tax evasion with state connivance in many cases was basic to the BOP and fiscal crisis which came to the fore during 1990. These two crises increased the clout of the foreign and domestic market forces vis-à-vis the state.

The 'crisis' in 1990 which was utilised to pave the way for a final blow against the tottering remains of statism and openly bring in more market in addition to the existing sway of the market forces was in every sense of the term an outcome of the basic design defects and perversion of public policies of control, regulation and direction by the steadily

empowered and emboldened market forces, by following the IMF-World Bank conditionality.[40] It was utilised for bringing the creeping marketisation to its near culmination in the form of replacing statism by structural adjustment as the declared policy ideology. The worsening of the decentralised, unorganised and informal sector during this period is yet another testimony of the re-energised commitment to narrow corporate interests. (Alternative Economic Survey 1991-98and Kabra, Kamal Nayan, 2002)

The `official' explanation of the `crisis' in tune with that of the pro-market, neo-liberal forces was in term of statist controls and regulation as the villain of the piece. In a way, it makes sense in so far as the actual and not formally stipulated regime of controls and regulations, as discussed above, by becoming a tool in the hands of the market forces, made a major contribution to the eruption of the `crisis' and its utilisation as a ploy for triggering off a process of formalising and extending that which was already operating underground albeit with a stigma and high cost. Now, with open, declared embracing of the market fundamentalist philosophy and its policy-package for the most far-reaching efforts for dismantling the statist apparatus, removing restrictions and adopting measures for facilitating market-led, externally-oriented growth, there was a formal rupture with the nominal statist past. The market forces, both domestic and external, especially from the G-7 countries led by the organised corporate sector and the TNCs, were placed in the leadership role with a weakened state as its increasingly subservient agent. (though the state is still not obliging to be completely sidelined as approvingly recognised by the New Washington consensus). The logic of the market has asserted itself in the policy arena as well. After a spell of nearly half a century, the chickens have come home to roost.

If the `statist' model, the one that was operationalised during 1950-1990 (as seen above) failed to deliver, what then is the character of the resulting outcome? Does non-realised, essentially unsuccessful statism become, ipso facto, an equivalent of, or a variant of the market model whether of the imperfections-ridden, incomplete, uneven market variety- a model, whose writ seems to have prevailed over that of the controls and regulations or a perfect, competitive, distortion -free model, as visualised by the neo-classicals ? If the latter were the case, the implication would be that the state interventions are the factor preventing the prices from being 'right', leading to failure or distortion of signaling and incentive mechanism and activisation of other market failures. Can it be the position that but for the

battery of controls and regulations, Indian economy would have been moving towards the operation of a perfectly competitive, optimising market model? Is it not likely that an industrial policy which fails to back up the winners, and in fact, goes the whole hog to produce such winners, (a la successful developmental states), and either tries to prop up losers or drops and punishes them, can hardly hope to succeed? (Sato, K., 1990, 643)

It is clear that there can be no question of the real situation of the Indian economy during 1950-1990 approximating to that of a perfectly competitive market leading to Pareto optimality. No one except abstract model builders can even take such a proposition seriously. This kind of a market is a purely abstract, hypothetical construct, an apologetic, cuckoo-cloud land mirage without any historical or living counterpart. Moreover, it is ahistorical and artificial to dichotomise the state and the market as two mutually exclusive and adversarial entities. In practice the two often work together, even if their purposes do not cohere, as they have their areas of complementarities. The state is arguably the single largest economic entity which enters the economy, either compulsorily and coercively (redistribution) or on the basis of commercial, market exchange or by tradition or by a combination of these methods (Polanyi, K., 1957). Similarly, markets too could exercise power, which may, in effect, often be akin to that of the state; it could extend over the state itself, and/or be relatively independent of the state. In a number of socially necessary activities, the markets are conjoint partners, e.g. the provision of public and quasi public goods and services.

The state and the market need to support and complement each other in the arena of information required for many critical micro and macro decisions. More importantly, a cooperative partnership, involving elements of voluntarism and coercion, between the state and the market, is unavoidable in the context of any scheme of conscious pursuit of economic growth in general and rapid and fargoing industrialisation in particular, especially for a late-industrialiser. This has been seen to be the case with the early, including pioneer, industrialisers as also of late industrialisers of different vintages (Shapiro, H. and Taylor Lance, referring to Gerschenkron; 1992, 436-439; Braudel, F. 1979) Given the close intertwining between the two, the neo-classical binary practice of dichotomising the state and market as two exclusive and generally hostile universes is surely the source of many a sterile controversy, blinkered world view and policy failures.

Much of such debate takes the state to be a single, large monolith which thinks and acts as one organic entity. Evidently, this is an oversimplified view of the complex reality of a historically evolved national state. It is no black box without internal differentiation, diversity, conflicts, coalitions and cooperative relationships. Such assumptions of neo-classical writings are unreal and unhistorical. In India, there are different levels of government, different wings and organs of the government and, within each, one sees many groups, strata, individuals with their variegated backgrounds, concerns, values and competencies. It is quite unrealistic and superficial to assume that such a complex organisation like a state can act like a single entity especially in relation with various market organisations and have no internal differentiation. These components of the state may have legally defined formal relationships amongst themselves and have a certain degree of relative autonomy of each other and a network of informal relationships. It is not unlikely that some of these relationships may be of the market variety: exchange between distinct units based on their resource endowment, possessions, preferences, access to information, their corporate character and linkages, etc, whereas the others may be legally architectured or informally evolved. The state market interface would surely be influenced by factors of this genre. What Coase has shown to be true with respect to a vertically integrated large firm (viz, it eliminates market transactions) may find, mutatis mutandis opposite application to the large national state when one decides to open up the contents of this assumed single black box and see them involved in market type of transactions.

Thus, it does not seem reasonable to contrast and dichotomise the state and the market beyond a point. It is the hypothesis and myth of a self-regulating market (Polany;1957) which leads to such stark, polar opposition between the two, ignoring their overlapping components, practices and many complementarities. For India, way back in the early 1950s as much as now, there was little option but to involve the state in economic growth, industrialisation and/or social transformation in a big and regular manner. This is no deterministic position, no cure-all, single recipe for one and all, as options galore with respect to the objectives, instruments, forms, extent, agency and agenda, timing, etc. of state involvement in the market processes and vice versa. But to speculate about the nature of the outcome in India without the presence of the state, either intrusive or infructuous or

benefactor, in the economic affairs amounts to closing one's eyes to history and is mere non-operational sophism.

The outcome of the state-economy interface over the eventful four decades prior to 1991 carries the imprint as much of the post-colonial, elitist-bureaucratic state, despite its democratic, rule of law trappings as also of India's limited, incomplete largely unorganised, segmented, distorted and malfunctioning markets at different stages of evolution in different regions and sectors. It seems that an appropriate and adequate understanding of such factors in the early days after independence could have made some difference to the model of Indian dirigisme and development planning, including the agency and agenda of industrialisation.

Be as it may, it seems to follow that the outcome of state and market mediated economic growth and industrialisation before the formal big ticket liberalisation in 1991 was vastly different from the stated social objectives. The economic expansion, diversification, differentiation, sophistication, etc. are, for sure, impressive gains, but they remain divorced from the broad national, social goals of empowerment of the nation and her disadvantaged people at large. It acquired strong elements of distorted development or maldevelopment. It is clear that such outcomes have to be attributed to the continued supremacy of the market forces, which subdued and subverted the popular social mandate and in the bargain, added interventions-induced distortions to the list of market-bred distortions. (Acocella, N., 1998,) It has to be recognised that the introduction of controls, regulations and direction are by no means a sufficient condition for their successful implementation; even micro level efforts towards effective implementation may come to nothing or produce a backlash owing to absence of macro-level planning of plan-implementation.(Kabra, Kamal Nayan 1997)

Any attempt to explore the aetiology of failures of state interventions, in addition to the endogenous factors like techno-economic design defects, lack of consistency and co-ordination is likely to point to the role of the market forces. What has come to be recognised as state-market symbiosis with the latter dominating the former and consigning the larger civil society to sidelines in many different ways, led to the fiasco of the controlled mixed economy model. An adequate appreciation of this complex reality demands moving away from the mindset which exhausts the choice space with the state market polarity.

End Notes

1. Jenkins (1999,1) quotes a World Bank report "India: Country Economic Memorandum, 1996 as asserting that the 'reform' since 1991 is a fundamental change, marking a quiet revolution. Ahluwalia, I.J. (1999, and 1995) recognises that the opportunity afforded by the BOP crisis was made use of to introduce the SAP.
2. We find a similarity in our approach to real markets in Jenkins' approach to real Indian democracy, rather than an abstract concept of democracy.
3. Byrd, W.A. .(1990,725,) says "Though real World markets have numerous imperfections the appropriate question is whether alternative modes of resource allocation can hope to do any better, or even as well" :
4. Unlike Jenkins (1999, 176-179) who maintains that the governing elites propagate claim regarding continuity of the policy regime after 1991 as a deceptive device as a part of their "underhanded" methods in order to make the change acceptable to the electorate, in our view there is a real, genuine continuity, of course with reckonable acceleration and extension owing to the blind alley reached by nominal statism. See Ahluwalia, M.S. (1995,14-15) The point comes out fairly sharply in the distinction between "liberalisation with given institutions and paradigms" and that "which involves a shift of a development paradigm" and institutions. (Bhalla, A.S. 2002, 419)
5. One often hears of the unfinished agenda of post-1991 'reforms'.(see, Bhagwati, J., 1998), for detailed specification of the unfinished agenda. All the protagonists of the Structural Adjustment Programme (SAP) speak of moving on to the second generation 'reforms': labour market deregulation, capital account convertibility further reduction of tariffs, competition law, fiscal responsibility law, privatisation of public enterprises, etc. The policy changes are often compared with the situation prevailing in many different countries, The common position is apparently believed to be the ideal which every country has to attain or surpass. In fact, further marketisation has been considered difficult owing to entrenched bureaucracy (Sridharan, E. 1999, 108-109) and the lukewarm, equivocal attitude of business classes with stakes in the rent-governed model.

6. Sridharan, 1999; Paranjape, 1985,1988, describe in detail the departures from the system of controls and regulation which were witnessed prior to 1991. Way back during the operation of industrial licensing system and everything which went with it, the violations and departures from the controls were so pervasive that it has been maintained that a result, the "fig leaf of planned development through licensing and controls has remained" (Mohan, R. and Agarwala, V. 1990, 695)

7 Dagli Committee on controls and subsidies (1979), Paranjape (1985 and 1988) etc. are among the detailed account of the relaxation of controls. For an account of fairly liberal approach which prevailed in India to foreign capital and technology prior to FERA in 1973, see, Subrahamanian (1972) and for a brief survey of the increasingly liberal policies towards foreign capital and technology , Chaudhuri, S. (1998)

8. While some have talked of the way the public sector has been helped to private sector, say, e.g. by crowding in private investment, others have spoken of the price policy, of the PSUs and financial support made available by the public financial institution. A stronger version argues that the public sector (either its existence or its management or both it is not clear) was "meant of subsidise the private sectors (S. Baru, 199 4 ,119)

9. It is rare indeed to come across any claim for the success of Indian dirigime. Even official reviews, like Mid-Term Review of the plans recognise major failures. Both the Right and the Left seem to be one on the issue, though on somewhat different criteria and reasons. See Byrd, (1990, 721) Corbridge, S, and Harriss, J. (2000, 144, 164,171 Chaudhary, P. (199)

Since catching-up indsutrialisation was taken to be the litmus test of successful transition from `underdevelopment' to development. (As Portes says, compared with the "radical" alternative of the Soviet type of industrialisation which, in effect, was not "a counter-system", the model of import substitution industrialisation as a way out of dependency offered a reasonable, ecletic path(Portes, A. 2000, 355). The failure of statism is reflected in unsuccessful indsutrialisation as reflected in the low share of industries in GDP, share in workforce or in the occupational structure and in poor international competitiveness and technological backwardness. Volatility, slow speed of industrial growth, inadequate global competitiveness and technological backwardness may be taken as further indicators of the failure to catch-up. This views

is irrespective of the question of feasibility and desirability of catching-up, mimetic indsutrialisation.

10. Many such Committees like ILPIC, Swaminathan Committee, K.N. Raj Committee on steel control, Dagli Committee, etc. may be mentioned. For details see References and Bibliography.

11. The plea for 'reforms' or adjustment with a 'human face' (a phrase quickly borrowed and bandied about by the SAP protagonists) gave expression to social concerns which did not form a part of the basic design of the Washington Consensus . It seems to have been pleaded initially by UNICEF not only in order to deal with the effects of the SAP on people and institutions but to include them in the adjustment process as "actors in the process" (Geest, W. Van der, 2001)

12. Many have noted various 'episodes' of liberalisation before 1991. Paranjape maintains that liberalisation has been going on since 1973 (198) despite many changes of government; the same has been the case after 1991. Often much has been made of the broad political consensus around liberalisation, making light of steady and increasing opposition to it by many large and numerous components of civil society. See Alternative Economic Survey, 1991-98 and 2000-2001, especially chapters by J. John and S. Lahiri and Dolly Arora. For a detailed analysis with its own distinct approach, Jenkins, Rob, (1999) Democratic Politics and Economic Reform in India.

13. Jenkins (1999) seems to attach a great deal of significance to the role and incentives of the `governing elite', especially owing to their role in initiating and winding up. In our view, it is really not meaningful to counterpose the role of the state-centric vis-à-vis socio economic interest groups, as the two have evolved a fairly durable relationship of mutuality.

14. India is no unique case of the failure of statism. Much of Latin America and South Asia have been indisputably unsuccessful in overcoming their prolonged relative dispowerment globally and of the vast majorities of their people domestically (see Latouche, S. 1993) Arguably even the much-adulated East Asian cases are hardly cases of successful catching-up and much less a laissez faire model, though their historical and contemporary conjuncture did gave them comparatively good performance in terms of the conventional, neo-liberal development or growth

economics criteria. (Hamilton, C. 1992) Portes, 2000, 359-368. Also World Bank (1993)

15. cf. "One can conceive of a continuum between a system of no restrictions and a perfectly restricted system. With no restrictions, enterprises would seek to gain windfall gains by adopting new technology, anticipating market shifts correctly, and so on. With perfect restrictions, regulations would be so all pervasive that rent-seeking would be the only route to gain" (Krueger, A. 1974, 302.) Jenkins (1999 5, 83-84) has suggested that since there is no rigid recipe of liberalisation, of India's governing elite continue to enjoy discretionary powers for their rent-collecting activities. He say that reforms does not deny politicians the ability to profiteer personally or build networks of patronage by steering benefits to political supporters."

16. Pointing out the difficulties of rolling back the state owing apart from structural reasons, to vested interests with stakes in a big state, Sridharan pointed out that the major economic interests who wanted to enjoy the benefits of liberalisation (like tax cuts, easier imports, larger and better choice of consumer goods, ease of doing business) do not seem to be prepared to bear its costs, as they have a vested interest in state-dominated, protectionist regime. (1995, 120-22) To an extent, the government-initiated top-down character of liberalisation may also be a factor accounting for not-so-strong, non-sustainable basis in society. (Ibid, Also, Geest, van der, 2001, 267-268).

17. A World Bank Economist, W.A. Byrd takes a substantively similar position. He maintains, "The main plan implementation mechanisms under the <u>partial</u> control of the Planning Commission have been public investment allocations and project approvals. The massive apparatus of regulatory controls for industry, the guidelines affecting financial institutions, price controls, price supports and subsidies for agricultural outputs and inputs, and other government interventions can be viewed broadly as plan implementation mechanisms, mainly directive rather than indicative in nature. <u>However, these instruments and policies they are supposed to serve have become increasingly divorced from the formal planning process."</u> (emphasis added) Lately Patel, I.G. (2002) has opined that after the Second Plan, there was hardly any planning in the real sense of the term in India.

18. Many liberalisers often characterise Indian planning as a Soviet-type command, centralised planning. This is far from true, See, e.g. Mohan, R. and Agarwala, V. (1990) who while not resisting the urge to dub Indian planning command-based (even the very little of the paper is suggestive, if not tendentious,) but their own analysis prevents them from taking an unequivocal position. At one place, they maintain that in India, which Is primarily a privately owned economy," "There was neither the expertise, nor the means to institute a form of indicative planning suited to a mixed economy. The result was that India ended up with a planning system more suited to a command economy and an economic administration more suited to regulation and control than development." (685). They recognise that "Even the use of simple material balancing techniques, including input-output tabs for achieving inter-sectoral balance did/not appear until the Fourth Five Year Plan." (690) But on page 692 they say, "Procedurally, the investment outlays are announced in the Five Year Plan documents are indicative and purely notional: They have no budgetary status.... The provisions made in the Five Year Plans are essentially used as indicative guidelines.". As the portions underlined by us indicate, the authors seem to believe in eating the cake and having it too !

Incidentally, some pre-conceived notions seem to exert some irresistible influence on this paper. For example, the authors maintain, "Industrial development planning in India seems to be by machines, for machines and for the production of more machines." (690) Hilarious indeed !

19. cf. The Balance of Payments crisis of 1990-91 proved to be a major turning point for economic policy-making in India . The opportunity was seized for initiating wide-ranging economic reforms" (Ahluwalia, I.J., 1999, 9 emphasis added) It may be mentioned that the switch-over at a paradigm level to market fundamentalism, and at a practical level large-scale, loudly-announced market-friendly policy regime was much less on account of extending threatened interests, and much more on account of the increasingly knotty working of the pre-1991 model see Corbridge, S. and Harriss, J. (2001).

20. Sridharan, E., (1999) Citing Haggard, S. and Webb,S. (ed) Voting For Reforms, O.U.P. New York, 1994, suggests that these `human face' ---etc. are essentially compensation to the poor for ensuring sustainability of liberalisation p. 120.

21. Minor and major changes in policies, or their course connection in India have often been rooted in crises of varying orders.Whitehead, L. (1993,1372) wonder some "threshold of crisis" is needed in order to move away from gradualism in policy conflicts." The `reforms-crisis' link has been hinted at by Corbridge, S. and Harriss, J. (2000, 145) when they suggest. "The main worry of the neoliberals is that it might take a second fiscal crisis to push the government into a fresh wave of reform, including liberalistion of agriculture and India's labour markets."

22. Political-administrative black incomes are nothing but rent of authority. (See, Kabra, Kamal Nayan, 1982)

23. Krueger, A. (1974) has estimated on the basis of Santhanam Committee Report on Corruption (1965) the value of rent in public investment, imports (the highest), controlled commodities, credit rationing (on the basis of RBI data) and railway purchases on the basis of assuming 20 percent commission. (p.294).

24. Byrd, W.A. pointed out that "these restrictions were not successful in reducing their (MRTP companies) influence or share in industrial activity". (1990, 730-731) He opines that those violations were not harmful to industrial growth. Hence, we may infer, they may be treated as market-consistent or friendly.

25. The emerging character of the State in India, as in south Asia, particularly after 1991 wave of liberalisation has been described by Barbara Harriss-White as "Calls for the radical privatisation of the state ignore the effective radical privatisation, informalisation and <u>now</u> mafianisation that South Asian States have been undergoing for much longer than the era of liberalisation of the 1990s," Quoted by Corbridge, Stuart and Harriss, John (2000, 143) <u>Just as marketisation has been going up in episodes up to 1973 and then practically continuously, so has been the privatisation of State including the direct and growing role of criminals and criminality</u>. She has argued about patterns of <u>state failure.</u> (168) Vohra Committee Report on the links between politicians and criminals, which was widely reported in the media, gave a great deal of evidence on these linkages.

26. In India, there was no conscious effort seemed to have been made to insulate the policy makers from various vested interests. There are many well-known views too numerous to be listed regarding the nature and influence of various interest groups. One may even speak of a tendency of interest groups to emerge around specific interventions (Shapiro, H. and Taylor, Lance, 1992, 443.)

27. One rarely comes across a positive appreciation of the policy and intervention role of Indian bureaucracy, which is generally treated more a part of the 'problem set' than of the solution set. For a recent example, see, Byrd, W.A. (1990, 732) After 1991 the non-accountable, self-serving bureaucracy has become all the more powerful by aligning itself as a junior errand boy of the international bureaucracy centred in international financial institutions and the WTO,. See, Acharya, S. (2002)

28. This was done with academic finesse by the neo-liberal scholars and by the lobby organisations like FICCI, Forum, of Free Enterprise, etc. However, Citing Kochanek, S,. Sridharan points out that FICCI "did not at anytime oppose this policy paradigm, or even licensing, still less provide alternative. FICCI's energies were directed at recommending small and specific policy changes from time to time, within the overall policy paradigm." (1999,112) What seems to emerge is the dual face of or a double-edged strategy of the large business classes.

29. It is interesting to note that while pointing out the limitations of the public sector in India, Byrd uses the phrase perhaps advisedly that public enterprises in India are "generally more inefficient, than private firms. (1990, 720, emphasis added).

30. Such controversies disregard the historical evidence that for industrialisation, the state has always intervened, despite the specificity of each such experience of interventions cf. Shapiro, H. and Taylor, L. (2001,432)

31. This is particularly true of the left parties; while they recognised the non-implementation and perversion of the controls and wanted their strengthening, they opposed all the dilutions under the existing non-implemented or distorted system which were witnessed in episodis, manner throughout this period.

32. Byrd, W.A. (1990, 716) observed, "Then, in the 1970s planning along with other aspects of government administration became increasingly political, as part of the general trend of deinstitutionalisation of the Indian State and the Congress Party".

(citing Rudolph & Rudolph, 1987) By the 1980s, the process of planning was perceived by many to have become very weak and formal, with the Planning Commission reduced to the role of an allocator of public investment funds between the States and vetting agency for large investment projects: IG Patel, (op. Cit) has also given similar assessment.

33. Corbridge, S. and Harriss, J. op.cit. quote Jenkins to describe the tactics adopted by the `power-brokers' (whose nefarious role was also noted by the then Prime Minster and Congress President, Rajiv Gandhi in his better known address at Bombay AICC Session): :In addition then, to `outright pilfering' these power-brokers make use of the following tactics: Shifting unpleasant responsibilities and blame to political opponents surreptitiously compensating selected interests, long-time political allies, and obscuring policy change by emphasising essential continuity. (p.9) " Thus Jenkin's treats the Indian state at once democratic and dirty. p. 159.

34. Among the conditions suggested for effective dirigisme, one often comes across the capability of the state to disentangle itself from the groups thriving on rent related activities and the ability to win widespread popular support not by sheer populism but by responding to the needs and aspirations of wider civil society. Home market expansion clearly occupies a prime place among such policies.

35. It is in the context that one has to appreciate the distinctive lessons from the East Asian experience of marrying statism with the markets. One such feature was their "inclusionary and sustainable patterns of development." (Corbridge, S. and Harriss J,) op.cit, 164)

36. On the performance of the Indian economy, may see, Rao, Tripati, D. (2001), Acharya S. (2002) Chaudhary, S. (2002), Nagraj, (2001), Kabra Kamal Nayan (2002), Ghosh, J. and Chandra Sekhar, C.P. (2002)

37. It may be noted that while the earlier document treated full employment as a long-term objective, the later plans have more or less forgotten full employment as an objective.

38. For indicator of marketisation during the `reforms' era, which show mixed trends, see, Kabra, Kamal Nayan (2002)

39. Practically the only evidence of an effort towards a wages, incomes and prices policy was the appointment of a study group on the subject. See, GOI, (1978), Report of the

Study Group on Wages, Incomes and Prices, New Delhi. No policy action was taken on this report. It is noteworthy, that the study groups' title studiously avoid the term wages, incomes and prices policy/policies.

40. Pender, J., (2001) who explains the concept of conditionality from official World Bank Sources and shows how they were imposed.

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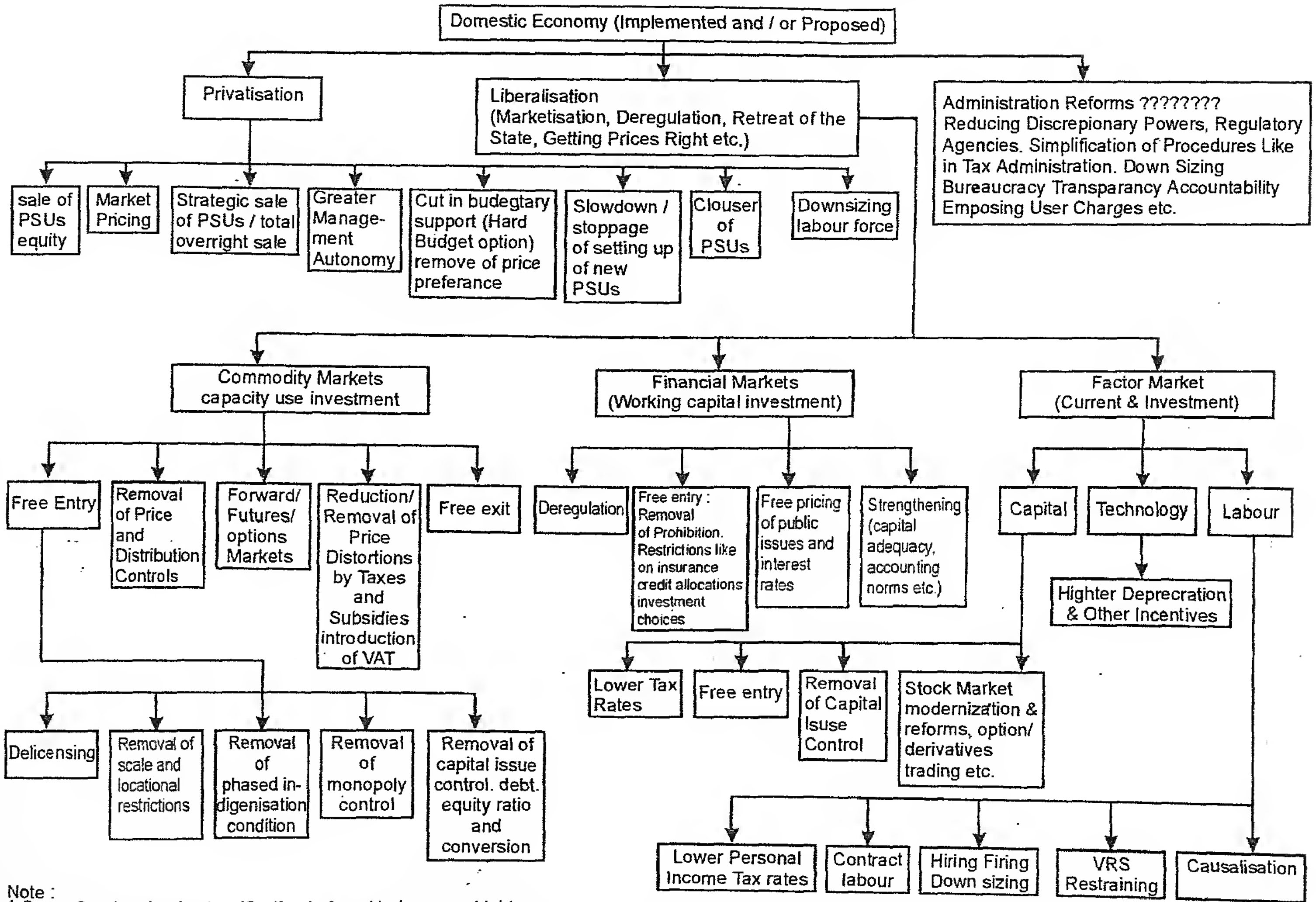
STRUCTURAL ADJUSTMENT PROGRAMME (REFORMS) IN INDIA-I



Note :
1.Some Overlapping in classification is found to be unavoidable
2.Stock Market Related 'reforms' may be taken to form part of either capital market 'reform' or financial sector 'reforms'

Structrual Adjustment Programme in India-II